



The Task Force on Court Facilities
 455 Golden Gate Avenue, San Francisco, CA 94102-3660
FINANCE AND IMPLEMENTATION COMMITTEE
Meeting Report
 March 24, 1999
 Holiday Inn Airport, Fresno, CA

TASK FORCE ATTENDEES: COMMITTEE MEMBERS: PRESENT: Mr. David Janssen, Chair Mr. Greg Abel Hon. Jerry Eaves Hon. Diane Wick Hon. Charles Smith Mr. Fred Klass ABSENT: none	PRESENTERS: Mr. Thomas Gardner, Vitetta Group Mr. Raul Amezcua, Solomon Smith Barney Mr. Nikolai Sklaroff, Solomon Smith Barney TASK FORCE STAFF: Ms. Veronica Gomez, Staff Analyst CONSULTANTS TO THE TASK FORCE: Mr. Thomas Gardner, Vitetta Group Ms. Kit Cole, Vitetta Group Mr. Jay Smith, Daniel, Mann, Johnson, & Medenhall GUESTS: Mr. Frank Schultz, Administrative Office of the Courts
--	--

- I. Mr. Janssen opened the meeting at 1:20 PM with the introduction of two guest speakers from the firm of Solomon Smith Barney, Mr. Raul Amezcua and Mr. Nikolai Sklaroff.
- II. Mr. Amezcua and Mr. Sklaroff presented an overview of financing tools for funding public facilities and infrastructure. "Public Financing Tools" was distributed to the attendees (attached).
 - 1) Cash Financing and Debt Financing were discussed. Three major categories of debt financing were identified: general obligations, securitized revenues, and securitized leases.
 - a) General Obligation Bonds are backed by the full faith and credit of government. Because they are backed by the government's taxing power, they are the most secure type of bond and, typically, have the highest rating given by bond rating companies. In California, general obligation bonds require 2/3 voter approval. There are also "limited obligation bonds" that utilize a more narrowly drawn pledge by the government.
 - b) Securitized Revenues are bond instruments whose debt service is guaranteed by a dedicated revenue stream. Covenants and reserve funds protect investors. Examples include Enterprise Revenue Bonds, Conduit Revenue Bonds, and Special Tax Revenue Bonds
 - c) Securitized Leases are instruments whose debt service is guaranteed by a dedicated revenue stream, typically general fund lease payments. There is recourse to the property if there is a default. The instruments create a covenant for the government to budget for the lease payments. Examples of these instruments are Certificates of Participation (COP) and Lease Revenue Bonds. The abatement and appropriation risk results in lower bond ratings than general obligations or securitized revenues.

- 2) It was noted that the Judiciary does not have authority to appropriate funds, this is reserved for the Legislature. A constitutional amendment is required to change this. Mr. Gardner added that New York created a finance authority, which has partnered with the courts.
- 3) Mr. Janssen said that dedicating revenue streams may be a problem with certain counties.
- 4) Mr. Gardner noted that there are plenty of financing tools, each with its own limitations.
- 5) The sources of possible revenue sources for court construction / renovation was questioned. Research is needed to identify possible revenue sources to support court facility projects.
- 6) Mr. Amezcua and Mr. Sklaroff noted that California issued approximately \$34 billion in debt in 1998 by state and local government. About \$9.3 billion was issued by the state and \$22.8 billion by local government. This includes all types of bonds and COPs; general obligation, securitized revenues and securitized leases. Mr. Klass questioned the state number, he felt it was too high and did not accurately represent the state's financial obligation. He speculated that Smith Solomon Barney's number included financing facilitated by the state but not guaranteed by it.
- 7) Things that should be considered in developing a financing structure:
 - a) Objectives: lowest borrowing costs, managing burden of covenants, and managing flexibility of revenues.
 - b) Investor appetite and acceptance
 - c) Credit levels and bond ratings
 - d) Ownership and nature of assets
 - e) Structure of available revenues
- 8) Mr. Amezcua and Mr. Sklaroff discussed factors affecting the price of bonds including credit ratings, demand for bonds, supply of bonds, economic expectations, interest rates, legal structure and market constraints. They emphasized that the state and local governments are currently in a favorable borrowing environment since the Bond Buyer Revenue Bond Index has dropped from 7.5% to less than 5.5% since 1994.
 - a) Mr. Janssen requested information on the state's debt capacity. Mr. Gardner replied that he was not certain about the capacity but that the Phase 4 survey would identify the outstanding debt for court facilities and the counties' debt capacity.
- 9) Mr. Amezcua and Mr. Sklaroff discussed different options for financing California's court facilities. They pointed out the advantages of general obligation bonds over other financing tools, but emphasized the difficulty in getting 2/3 of the voters to approve them. They added that this constraint, enacted by Proposition 13, resulted in an explosion in the use of different financing tools. They discussed the development of a financing plan for the courts illustrating the differences between state and county financing. They highlighted issues that must be considered in developing a financing plan, including legal constraints, credit concerns, and revenue constraints. They noted that some user fees are implemented to influence behavior (i.e. higher water rates imposed on those who use more water) or imposed on the end users to pay for construction costs (i.e. toll roads; not possible with jails, though). They suggested the possibility of a revolving fund at the state level similar to those being established for tobacco settlements.

III. Mr. Gardner updated the committee on the progress on phase 5a1.

- 1) Vitetta Group surveyed 16 states to determine how they manage and finance court facilities. The variations in systems were categorized by the court's dependence on the state. Four categories were created:
 - a) Super-dependent: The state has full control of financing, facility standards, construction, operations/maintenance, and employees
 - b) Dependent: State controls financing and standards, shares construction with local authorities, and local authorities are responsible for operations / maintenance and employees.
 - c) Interdependent: The state and local authorities share all responsibilities
 - d) Independent: Local authorities are responsible for all functions.
- 2) The following key areas for decision/consideration were identified from Vitetta's state survey:
 - a) Degree of centralization
 - b) Ability of local governments to raise revenue
 - c) Providing state administrative infrastructure to support chosen model
 - d) Willingness to share responsibilities and financing.
- 3) Mr. Gardner noted that Vitetta will complete their survey of four California agencies (Board of Corrections, state universities, appellate courts, community colleges) and present the results at the next committee meeting. The state models categorized in the same manner as the other states. Key variables that would favor one model over another will be identified.
- 4) Mr. Janssen asked for a historical perspective on how and why superior courts were linked to the counties. A presentation on the historical structuring of the counties and courts was suggested as a topic for the next meeting; possibly delivered by a judge or sheriff.

IV. Mr. Gardner said that he was unable to arrange for an auditor from Fresno County to speak to the committee, but that he will request a representative from Los Angeles County for the next meeting.

V. Mr. Janssen presented a letter from Judge John Kennedy, presiding judge of San Bernardino County Superior Court, asking for input from the Task Force on the Baca Bill. The bill proposes that \$50.00 be added to civil filings to generate revenue for courthouse construction. Judge Kennedy would like the Task Force to endorse the bill.

- 1) Supervisor Eaves noted that the counties are in full support of this bill.
- 2) Judge Wick surmised that the number of fee waivers would increase due to this surcharge. Supervisor Eaves suggested that an amendment to the bill be included strengthening the justification requirements for fee waivers.
- 3) Mr. Janssen suggested that the Task Force not take a position in support of the bill but, rather, state that the bill is not prejudicial to the Task Force's work nor premature. He stated that he sees no reason for the legislature to delay the bill.

VI. The committee meeting adjourned at 4:50 PM.